



HONG KONG MONETARY AUTHORITY
香港金融管理局

Arthur K. H. Yuen JP
Deputy Chief Executive

阮國恒 JP
副總裁

Ref: B10/1C

19 May 2015

The Honorable John Gleeson
United States District Court for the Eastern District of New York
United States Courthouse
225 Cadman Plaza East
Brooklyn, New York
11201

Dear Judge Gleeson,

In my capacity as the Deputy Chief Executive of the Hong Kong Monetary Authority ("HKMA"), I am writing concerning your order to the Department of Justice ("DOJ") to file with the Court the first report by Mr. Cherkasky, the DOJ Monitor, and his team ("Monitor") of HSBC Holdings plc's ("Bank") arising out of the Deferred Prosecution Agreement.

The interest of the HKMA in this matter is the Hong Kong Country Review Report, which is part of the first report ("Hong Kong review"). The Hong Kong review focuses on the Hong Kong operations of The Hongkong and Shanghai Banking Corporation Limited ("HBAP"), a wholly owned subsidiary of the Bank, which is one of two key operations centres globally within the Bank and which falls within the HKMA's supervision. The Hong Kong review focuses on HBAP's Hong Kong Private Banking Division and the Global Trade and Receivables Finance-Hong Kong product line.

We welcome this opportunity to present our views on whether or not the Court should have the report filed under seal.

As in the case of fellow supervisors in major financial centres, the HKMA attaches great importance to the promotion and active supervision of international best practices of the anti-money laundering ("AML") and sanctions compliance programs of the local and overseas banks it supervises, including HBAP. We have an interest in ensuring that HBAP's AML and sanctions control program meet applicable legal and regulatory requirements and follow international best practices. We view the work of the Monitor as strong support for the HKMA's supervision of HBAP.

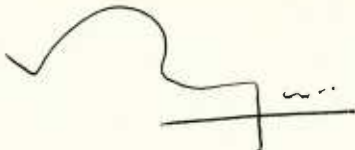
We believe that the full publication of the Hong Kong review could prejudice the ability of the Monitor to complete his objectives, which requires an in depth and protracted examination of the Bank's operations and culture, which in our experience is best served by an approach which encourages the greatest possible candour and openness on the part of staff required to participate in the process. It is apparent from the Hong Kong review that certain individuals or groups of individuals may be identified by reference to particular roles or departments. We consider it important to bring to your attention the practical difficulties that publication of the report, in full or part, may present to the future work of the Monitor by inadvertently limiting the extent to which whistle blowers and staff will come forward and candidly communicate with the Monitor.

Further, some of the detailed information provided in the report may present potential opportunities to those seeking to exploit loopholes in the control functions of both the Bank and the global financial system more generally.

We also want to highlight the risk that many readers will see the report and the shortcomings highlighted therein as applying to the present, when in fact the report is, to a large extent, historical, as many of the shortcomings have been or are in the process of being rectified. It is our view that there is a not insignificant risk that full publication of the report could result in instability for the Bank which is a significant supervisory concern.

To summarise, the HKMA shares the common goal with other regulators and competent authorities of combating money laundering and related irregularities. The HKMA fully supports the work of the Monitor and welcomes the Hong Kong review. We appreciate this opportunity to provide our views on this process and respectfully ask that you take them into account when coming to a decision. We would be happy to expand on any of the above points, or provide more detailed information.

Yours sincerely,

A handwritten signature in dark ink, consisting of a stylized, flowing line that ends in a horizontal stroke with a small vertical tick at the end.